

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

Financial Statements

Year Ended September 30, 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4/6/11

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INDEPENDENT AUDITOR'S REPORT

**Board of Commissioners
Consolidated Gravity Drainage District No. 2
of the Parish of St. Mary
Morgan City, Louisiana**

We have audited the accompanying financial statements of the governmental activities and each major fund of Consolidated Gravity Drainage District No. 2 of the Parish of St. Mary (hereinafter "District"), a component unit of the Parish of St. Mary, as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 24 and 25 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
March 30, 2011

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Statement of Net Assets
September 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash	\$ 9,268,963
Accounts receivable	1,676
Prepaid expenses	<u>39,387</u>
Total current assets	<u>9,310,026</u>
Noncurrent assets:	
Capital assets, net	8,596,723
Bond issuance and refunding costs, net of amortization	<u>96,589</u>
Total noncurrent assets	<u>8,693,312</u>
Total assets	<u>18,003,338</u>
LIABILITIES	
Current liabilities:	
Accounts payable	80,853
Accrued liabilities	40,976
Bonds payable	<u>355,000</u>
Total current liabilities	476,829
Noncurrent liabilities:	
Bonds payable	<u>10,980,757</u>
Total liabilities	<u>11,457,586</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,115,665
Restricted for debt service	867,587
Unrestricted	<u>562,500</u>
Total net assets	<u>\$ 6,545,752</u>

The accompanying notes are an integral part of the basic financial statements.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

**Statement of Activities
Year Ended September 30, 2010**

Governmental activities:	
Advertising	\$ 2,612
Amortization	7,194
Depreciation	294,725
Fuel and electricity	34,716
Insurance	62,507
Interest and fiscal charges	485,550
Miscellaneous	14,286
Pension	61,548
Per diem - board	4,030
Professional fees	8,926
Repairs and maintenance	418,685
Salaries and wages	92,500
Secretary and accounting	<u>4,200</u>
Total program expenses	1,491,479
General revenues:	
Ad valorem taxes	1,903,718
Interest income	<u>66,108</u>
Total general revenues	1,969,826
Change in net assets	478,347
Net assets, beginning	<u>6,067,405</u>
Net assets, ending	<u>\$6,545,752</u>

The accompanying notes are an integral part of the basic financial statements.

FUND FINANCIAL STATEMENTS

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Balance Sheet
Governmental Funds
September 30, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	524,501	7,932,466	811,996	9,268,963
Receivables -				
Accounts	726	-	950	1,676
Due from other funds	<u>6,289</u>	<u>29,430</u>	<u>60,930</u>	<u>96,649</u>
Total assets	<u>531,516</u>	<u>\$7,961,896</u>	<u>\$873,876</u>	<u>\$9,367,288</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	34,586	46,267	-	80,853
Due to other funds	<u>29,430</u>	<u>60,930</u>	<u>6,289</u>	<u>96,649</u>
Total liabilities	<u>64,016</u>	<u>107,197</u>	<u>6,289</u>	<u>177,502</u>
Fund balances:				
Reserved for-				
Debt service	-	-	867,587	867,587
Capital projects	-	7,854,699	-	7,854,699
Unreserved	<u>467,500</u>	<u>-</u>	<u>-</u>	<u>467,500</u>
Total fund balances	<u>467,500</u>	<u>7,854,699</u>	<u>867,587</u>	<u>9,189,786</u>
Total liabilities and fund balances	<u>\$ 531,516</u>	<u>\$7,961,896</u>	<u>\$873,876</u>	<u>\$9,367,288</u>

(continued)

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

Balance Sheet (continued)
Governmental Funds
September 30, 2010

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets:

Total fund balances for governmental funds at September 30, 2010	\$ 9,189,786
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land, canals, and levees	\$ 2,315,352	
Construction in progress	350,961	
Pumps and engines, net of \$1,908,209 accumulated depreciation	351,197	
Pump station improvements, buildings, net of \$2,276,653 accumulated depreciation	3,837,307	
Drainage improvements, net of \$824,358 accumulated depreciation	1,741,906	8,596,723

Prepaid expenses used in governmental activities are not financial resources and, therefore, are not reported in the funds.	39,387
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Certain costs related to the issuance of long-term debt are expensed in the fund financial statements but amortized over the life of the issuance in the governmental funds.	96,589
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds:	
Bonds payable	(11,335,757)
Accrued interest payable	(40,976)
	(11,376,733)

Total net assets of governmental activities at September 30, 2010	\$ <u>6,545,752</u>
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The accompanying notes are an integral part of the basic financial statements.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2010**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues:				
Ad valorem taxes	\$ 824,239	\$ -	\$ 1,079,479	\$1,903,718
Interest income	<u>3,084</u>	<u>56,614</u>	<u>6,410</u>	<u>66,108</u>
Total revenues	<u>827,323</u>	<u>56,614</u>	<u>1,085,889</u>	<u>1,969,826</u>
Expenditures:				
Current -				
Drainage works				
Advertising	2,612	-	-	2,612
Fuel and electricity	34,716	-	-	34,716
Insurance	53,889	-	-	53,889
Miscellaneous	14,230	56	-	14,286
Pension	26,466	-	35,082	61,548
Per diem - baord	4,030	-	-	4,030
Professional fees	8,275	651	-	8,926
Repairs and maintenance	408,185	10,500	-	418,685
Salaries and wages	92,500	-	-	92,500
Secretary and accounting	4,200	-	-	4,200
Debt service -				
Principal	-	-	335,000	335,000
Bond issuance costs	-	48,088	-	48,088
Interest and fiscal charges	-	-	457,940	457,940
Capital outlay	<u>31,600</u>	<u>240,664</u>	<u>-</u>	<u>272,264</u>
Total expenditures	<u>680,703</u>	<u>299,959</u>	<u>828,022</u>	<u>1,808,684</u>
Excess (deficiency) of revenues over expenditures	146,620	(243,345)	257,867	161,142
Other financing sources:				
General obligation bonds issued	<u>-</u>	<u>6,320,000</u>	<u>-</u>	<u>6,320,000</u>
Net change in fund balances	146,620	6,076,655	257,867	6,481,142
Fund balances, beginning	<u>320,880</u>	<u>1,778,044</u>	<u>609,720</u>	<u>2,708,644</u>
Fund balances, ending	<u>\$ 467,500</u>	<u>\$7,854,699</u>	<u>\$ 867,587</u>	<u>\$9,189,786</u>

(continued)

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)
Governmental Funds
Year Ended September 30, 2010**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities:**

Amounts reported for governmental activities in the statement
of activities are different because:

Net change in fund balances - governmental funds	\$6,481,142
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Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.

Capital outlay which is considered expenditures on Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 272,264	
Depreciation expense for the year ended September 30, 2010	<u>(294,725)</u>	(22,461)

The issuance of long-term debt provides current financial resources
to governmental funds, while the repayment of the principal of long-term
debt consumes the current financial resources of governmental funds.

Neither transactions, however, has any effect on net assets. Also,
governmental funds report the effects of issuance costs, premiums,
discounts, and similar items when debt is first issued, whereas these
amounts are deferred and amortized in the statement of activities.

Proceeds from issuance of debt	(6,320,000)	
Principal payment	335,000	
Change in accrued interest	(22,080)	
Bond issuance costs incurred in the current year	48,088	
Amortization of bond issuance costs and deferred gain on advanced funding	<u>(12,724)</u>	(5,971,716)

Governmental activities report the changes in prepaid expense as an
increase or decrease in current general government expense.

Current year prepaid expense	39,387	
Prior year prepaid expense	<u>(48,005)</u>	<u>(8,618)</u>

Total changes in net assets at September 30, 2010 per Statement of Activities	<u>\$ 478,347</u>
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The accompanying notes are an integral part of the basic financial statements.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies

On November 12, 1997, the St. Mary Parish Council created Consolidated Gravity Drainage District No. 2 of the Parish of St. Mary (hereinafter "District"), a consolidated gravity district which included the boundaries of Gravity Drainage District No. 3 and Gravity Drainage District No. 5. The District was created and established pursuant to the provisions of Part II, Chapter 7, Title 38 of the Louisiana Revised Statutes of 1950, as amended. The District has full power and authority to drain lands in the district by construction, maintenance and operation of pumping plants, dikes, levees, and other related works.

A. Financial Reporting Entity

This report includes all funds which are controlled by or dependent on the District's executive and legislative branches (the Board of Commissioners). Control by or dependence on the District was determined on the basis of budget adoptions, taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibility. The District is an integral part of the Parish of St. Mary.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Both the government-wide and the fund financial statement categorize primary activities as governmental.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Taxes and items not properly included among program revenues are reported as general revenues.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues in the year for which they are earned.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

Notes to Basic Financial Statements (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Ad valorem taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Ad valorem taxes are recognized as revenues in the year in which such taxes are levied and billed to taxpayers. Other major revenues that are considered susceptible to accrual include earned grant revenues and other intergovernmental revenues, and interest on investments.

The District maintains three funds. They are categorized as governmental funds. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. A fund is considered major if it is the primary operating fund of the entity or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental Funds –

The focus of the governmental funds' measurement (in the fund statement) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District, which are also the major funds:

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Notes to Basic Financial Statements (continued)

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or repair or replacement of major capital facilities.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

D. Interest-bearing Deposits

Interest-bearing deposits are stated at cost, which approximates market. The interest-bearing deposits are time deposits which are fully secured through the pledge of bank-owned securities or the Federal Deposit Insurance Corporation (FDIC) insurance coverage.

E. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received.

F. Capital Assets

All capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, pump stations, and improvements	15-40 years
Drainage system improvements	20-25 years
Equipment, pumps, and engines	15-25 years
Land, canals, levees, and construction in progress	Not being depreciated

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Notes to Basic Financial Statements (continued)

G. Equity Classifications

In the government-wide statements, equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

In the fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved.

H. Budgetary Practices

The District complies with the “Louisiana Local Government Budget Act” and henceforth, budgets are adopted for its general fund on a modified accrual basis that is consistent with generally accepted accounting principles. Annual budgets are prepared along with a budget message and presented to the Board for adoption no later than 15 days prior to the beginning of the fiscal year. Budgets are adopted for the fiscal year and lapse at year end. The budget is amended by supplemental appropriations as needed during the year to comply with state law.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary integration is not employed as a management control device during the year for the General Fund. The budget is prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP), which for the General Fund is the modified basis of accrual.
- b. The District approves and adopts total budget revenue and expenditures only. The District transfers budget amounts between expenditure classifications within the General Fund. Therefore, the level of budgetary responsibility is by total expenditures. Unused appropriations lapse at the end of the year.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

Notes to Basic Financial Statements (continued)

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. Those estimates affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates.

J. Use of Restricted Funds

When both restricted and unrestricted resources are available for use, the policy of the District is to use restricted resources first, then unrestricted resources as needed.

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CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Notes to Basic Financial Statements (continued)

(2) Cash and Interest-Bearing Deposits

Under state law, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At September 30, 2010, the District has cash and interest-bearing deposits (book balances) totaling \$9,268,963 as follows:

Demand deposits	<u>\$9,268,963</u>
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These deposits are stated at cost, which approximates market. Under state law, these deposits, (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the District or the pledging fiscal agent bank by a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) at September 30, 2010, are secured as follows:

Bank balances	<u>\$ 9,285,129</u>
Federal deposit insurance	\$ 250,000
Pledged securities	<u>9,035,129</u>
Total federal insurance and pledged securities	<u>\$ 9,285,129</u>

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District's deposits may not be recovered or will not be able to recover collateral securities that are in the possession of an outside party. The District does not have a policy to monitor or attempt to reduce exposure to custodial credit risk. However, as of September, 2010, the District's total bank balances were fully insured and collateralized with securities held in the name of the District by the pledging financial institution's agent and, therefore, not exposed to custodial credit risk.

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Notes to Basic Financial Statements (continued)

(3) Interfund Balances

The composition of interfund balances at September 30, 2010 consisted of the following:

	Due from			
	General	Capital Projects	Debt Service	Total
Due to:				
General	\$ -	\$ 29,430	\$ -	\$ 29,430
Capital Projects	-	-	60,930	60,930
Debt Service	6,289	-	-	6,289
	<u>\$ 6,289</u>	<u>\$ 29,430</u>	<u>\$ 60,930</u>	<u>\$ 96,649</u>

These receivables and payables reverse in the normal course of operations. All remaining balances resulted from time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payment between the funds are made.

(4) Ad Valorem Taxes

Ad valorem taxes attach as an enforceable lien on property within the District's taxing area as of January 1 of each year. Taxes are levied by the District in September or October and are actually billed to taxpayers in November or December. Billed taxes become delinquent on January 1 of the following year. The St. Mary Parish Sheriff bills and collects the District's property taxes using the assessed values determined by the tax assessor of St. Mary Parish. District property tax revenues are budgeted in the year billed.

For the year ended September 30, 2010, taxes of 17.18 mills were levied on property with assessed valuations totaling \$109,651,683 and were dedicated as follows:

Maintenance and operations	7.44 mills
Debt service	9.74 mills

Total taxes collected were \$1,903,718.

The value of homestead exempt property totaled \$17,820,722.

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Notes to Basic Financial Statements (continued)

(5) Capital Assets

Capital asset activity as of and for the year ended September 30, 2010 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land, canals, and levees	\$ 2,315,352	\$ -	\$ -	\$ 2,315,352
Construction in progress	110,297	240,664	-	350,961
Total capital assets not being depreciated	<u>2,425,649</u>	<u>240,664</u>	<u>-</u>	<u>2,666,313</u>
Capital assets being depreciated:				
Pumps and engines	2,256,556	2,850	-	2,259,406
Pump station improvements, buildings	6,113,960	-	-	6,113,960
Drainage improvements	2,537,514	28,750	-	2,566,264
Total capital assets	<u>10,908,030</u>	<u>31,600</u>	<u>-</u>	<u>10,939,630</u>
Less accumulated depreciation:				
Pumps and engines	(1,875,822)	(32,387)	-	(1,908,209)
Pump station improvements, buildings	(2,099,491)	(177,162)	-	(2,276,653)
Drainage improvements	(739,182)	(85,176)	-	(824,358)
Total accumulated depreciation	<u>(4,714,495)</u>	<u>(294,725)</u>	<u>-</u>	<u>(5,009,220)</u>
Total capital assets, being depreciated, net	<u>6,193,535</u>	<u>(263,125)</u>	<u>-</u>	<u>5,930,410</u>
Total capital assets, net	<u>\$ 8,619,184</u>	<u>\$ (22,461)</u>	<u>\$ -</u>	<u>\$ 8,596,723</u>

Depreciation expense in the amount of \$294,725 was charged to drainage works.

At September 30, 2010, the District had an uncompleted construction contract with a remaining commitment of approximately \$11,245.

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Notes to Basic Financial Statements (continued)

(6) Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the District for the year ended September 30, 2010:

	Balance 10/1/2009	Additions	Deletions	Balance 9/30/2010	Due Within One Year
General Obligation Refunding Bonds	\$ 2,260,000	\$ -	\$205,000	\$ 2,055,000	\$ 215,000
General Obligation Bonds	3,135,000	6,320,000	130,000	9,325,000	140,000
Total	<u>\$ 5,395,000</u>	<u>\$ 6,320,000</u>	<u>\$ 335,000</u>	<u>\$ 11,380,000</u>	<u>\$ 355,000</u>

Bonds payable at September 30, 2010, is comprised of the following individual issues:

General obligation bonds:

\$2,470,000 General Obligation Refunding Bonds, Series 2005, (to defease a portion of General Obligation Bonds, Series 1998) payable in annual installments of \$5,000 to \$305,000 payable through March 1, 2019, with interest at 3.8%

\$ 2,055,000

Less: Deferred amount on refunding, net of amortization

(44,243)

Total

2,010,757

\$3,600,000 General Obligation Bonds, Series 2005, payable in annual installments of \$105,000 to \$280,000 through March 1, 2025, with interest of 4.25% to 5.25%

3,005,000

\$6,320,000 General Obligation Bonds, Series 2009, payable in annual installments of \$175,000 to \$605,000 through March 1, 2029, with interest of 4.10%-6.00%

6,320,000

Total bonds payable

\$11,335,757

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

Notes to Basic Financial Statements (continued)

The annual requirements to amortize all debt outstanding as of September 30, 2010 are as follows:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 355,000	\$ 504,440	\$ 859,440
2012	545,000	484,774	1,029,774
2013	580,000	459,226	1,039,226
2014	600,000	433,356	1,033,356
2015	635,000	407,004	1,042,004
2016-2020	3,160,000	1,599,383	4,759,383
2021-2025	3,265,000	906,409	4,171,409
2026-2029	2,240,000	214,303	2,454,303
Total	<u>\$ 11,380,000</u>	<u>\$ 5,008,895</u>	<u>\$ 16,388,895</u>

Advance Refunding

On September 1, 2005, the District refunded and defeased \$3,420,000 of the \$5,240,000 General Obligation Bonds, Series 1998 with proceeds from the \$2,470,000 General Obligation Bonds, Series 2005 and \$1,045,000 of surplus funds in the District's Debt Service Fund. At September 30, 2010, \$2,875,000 of the defeased bonds remain outstanding.

(7) Compensation Paid to Board Members

For the year ended September 30, 2010, the following individuals served on the Board of Commissioners and received per diem allowance as follows:

Carl Kraemer, President	\$ 780
Daniel Wilson	845
Harrel Wilson	780
Ray Autrey	780
Tommy Longman	845
Total	<u>\$ 4,030</u>

(8) Social Security System

All employees of the District participate in the Social Security System. The District and its employees contribute a percentage of each employee's salary to the System (7.65% contributed by the District and 7.65% by the employee). The District's contribution during the year ended September 30, 2010 amounted to \$5,470.

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Notes to Basic Financial Statements (continued)

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has elected to purchase insurance coverage through the commercial insurance market to cover its exposure to loss. The District is insured up to policy limits for each of the above risks. There were no significant changes in coverage, retentions, or limits during the year ended September 30, 2010. Settled claims have not exceeded the commercial coverage in any of the previous three fiscal years.

(10) New Accounting Pronouncement

In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (Statement). Certain significant changes in the Statement will require the following:

Fund balance for the District's governmental fund will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

1. Nonspendable fund balance—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
2. Restricted fund balance—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
3. Committed fund balance—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
4. Assigned fund balance—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
5. Unassigned fund balance—amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The Statement also establishes several new presentation and disclosure requirements, including requirements related to stabilization arrangements (i.e., "rainy day" amounts).

The District is required to implement this standard for the fiscal year ending September 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

General Fund
Budgetary Comparison Schedule
Year Ended September 30, 2010

	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
Revenues:			
Ad valorem taxes	\$ 581,000	\$ 824,239	\$ 243,239
Interest income	6,400	3,084	(3,316)
Total revenues	<u>587,400</u>	<u>827,323</u>	<u>239,923</u>
Expenditures:			
Current -			
Drainage works			
Advertising and publishing	1,200	2,612	(1,412)
Emergency operations	25,000	-	25,000
Engineering and consultant fees	18,000	-	18,000
Fuel and electricy	32,300	34,716	(2,416)
Insurance	69,000	53,889	15,111
Miscellaneous	18,000	14,230	3,770
Pension	21,000	26,466	(5,466)
Per diem - board	6,000	4,030	1,970
Professional fees	9,500	8,275	1,225
Repairs and maintenance	94,000	408,185	(314,185)
Salaries and wages	98,000	92,500	5,500
Secretary and accounting	<u>5,000</u>	<u>4,200</u>	<u>800</u>
Total drainage works	397,000	649,103	(252,103)
Capital outlay	<u>100,000</u>	<u>31,600</u>	<u>68,400</u>
Total expenditures	<u>497,000</u>	<u>680,703</u>	<u>(183,703)</u>
Net change in fund balance	90,400	146,620	56,220
Fund balance, beginning	<u>70,000</u>	<u>320,880</u>	<u>250,880</u>
Fund balance, ending	<u>\$ 160,400</u>	<u>\$ 467,500</u>	<u>\$ 307,100</u>

See accompanying notes to budgetary comparison schedule.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

Notes to Budgetary Comparison Schedule

(1) Basis of Accounting

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted or as finally amended by the District.

(2) Excess of expenditures over appropriations

For the year ended September 30, 2010, expenditures exceed appropriations in the General Fund by \$183,703. These excess expenditures were covered by available current year excess revenue in the fund.

INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS

KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

C. Burton Kolder, CPA*
Russell F. Champagne, CPA*
Victor R. Slaven, CPA*
P. Troy Courville, CPA*
Gerald A. Thibodeaux, Jr., CPA*
Robert S. Carter, CPA*
Arthur R. Mixon, CPA*

Tynes E. Mixon, Jr., CPA
Allen J. LaBry, CPA
Albert R. Leger, CPA, PFS, CSA*
Penny Angelle Scruggins, CPA
Christine L. Cousin, CPA
Mary T. Thibodeaux, CPA
Marshall W. Guidry, CPA
Alan M. Taylor, CPA
James R. Roy, CPA
Robert J. Metz, CPA
Kelly M. Doucet, CPA
Cheryl L. Bartley, CPA
Mandy B. Self, CPA
Paul L. Delcambre, Jr., CPA
Wanda F. Arcement, CPA, CVA
Kristin B. Dauzat, CPA
Richard R. Anderson Sr., CPA
Carolyn C. Anderson, CPA
Matthew E. Margaglio, CPA
Jane R. Hebert, CPA

Retired:

Conrad O. Chapman, CPA* 2006
Harry J. Clostio, CPA 2007

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332 West Sixth Avenue Oberlin, LA 70655 Phone (337) 639-4737 Fax (337) 639-4568	621 Main Street Pineville, LA 71360 Phone (318) 442-4421 Fax (318) 442-9833
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Consolidated Gravity Drainage District No. 2
of the Parish of St. Mary
Morgan City, Louisiana

We have audited the financial statements of the governmental activities and each major fund of Consolidated Gravity Drainage District No. 2 of the Parish of St. Mary (hereinafter "District"), a component unit of the Parish of St. Mary, as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of audit results and findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of audit results and findings as item 2010-1 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of audit results and findings as item 2010-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of audit results and findings as item 2010-3.

The District's responses to the findings identified in our audit are described in the accompanying corrective action plan for current year findings. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the District's Board of Commissioners, management and others within the organization, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Although the intended use of this report may be limited under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document in accordance with Louisiana Revised Statute 44:6.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
March 30, 2011

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Schedule of Audit Results and Findings
Year Ended September 30, 2010

Part I: Summary of Auditor's Results

FINANCIAL STATEMENTS

- Unqualified opinions have been issued on the financial statements of the District's governmental activities and each major fund.
- Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements and one of the conditions is considered a material weakness.
- An instance of noncompliance required to be reported under *Government Auditing Standards* is reported in Part II of this schedule
- A management letter was not issued.

CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY

Schedule of Audit Results and Findings (continued)
Year Ended September 30, 2010

Part II: Findings reported in accordance with *Governmental Auditing Standards*

A. Internal Control

2010-1 Inadequate Segregation of Duties

CONDITION: Accounting and financial functions are not adequately segregated.

CRITERIA: Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The District's internal control over financial reporting includes those policies and procedures that pertain to the District's ability to record, process, summarize, and report financial data consistent with the assertions embodied in financial statements.

CAUSE: The cause of the condition is the result of a failure to design and implement policies and procedures necessary to achieve adequate internal control.

EFFECT: Failure to adequately segregate accounting and financial functions increases the risk that errors and/or irregularities including fraud and/or defalcations may occur and not be prevented and/or detected.

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

**Schedule of Audit Results and Findings (continued)
Year Ended September 30, 2010**

2010-2 Application of GAAP (generally accepted accounting principles)

CONDITION: Management and staff lack the training and expertise in the selection and application of GAAP in the financial statement preparation process.

CRITERIA: AU §325.29 identifies, as a deficiency in the design of (internal) controls, employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording financial transactions or preparing its financial statements.

CAUSE: The cause of the condition is the result of a failure to design and implement policies and procedures necessary to achieve adequate internal control.

EFFECT: Financial statements and related supporting transactions may reflect a material departure from generally accepted accounting principles.

RECOMMENDATION: The additional costs required to achieve the desired benefit may not be economically feasible.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

**Schedule of Audit Results and Findings (continued)
Year Ended September 30, 2010**

B. Compliance

2010-3 Budget Variance

CONDITION: Budget variance in excess of 5% was incurred in the General Fund.

CRITERIA: LSA-RS 39:1311 et seq, Budgetary Authority and Control, provides for the following:

“A. The adopted budget and any duly authorized adopted amendments shall form the framework from which the chief executive or administrative officers and members of the governing authority of the political subdivision shall monitor revenues and control expenditures. The chief executive or administrative officer for a political subdivision subject to public participation shall advise the governing authority or independently elected official in writing when:

(1) Total revenue and other sources plus projected revenue and other sources for the remainder of the year, within a fund, are failing to meet total budgeted revenues and other sources by five percent or more.

(2) Total actual expenditures and other uses plus projected expenditures and other uses for the remainder of the year, within a fund, are exceeding the total budgeted expenditures and other uses by five percent or more.

(3) Actual beginning fund balance, within a fund, fails to meet estimated beginning fund balance by five percent or more and fund balance is being used to fund current year expenditures.

CAUSE: The condition results from a failure to properly monitor the revenues and expenditures of the General Fund.

EFFECT: The District may not prevent and/or detect compliance violations due to over expenditure of the appropriated budget, and/or errors or irregularities on a timely basis.

RECOMMENDATION: We recommend that the District periodically compare actual activity to budgeted amounts and adopt budgetary amendments as necessary to cause compliance with state statute.

Part III: Findings and questioned costs for federal awards reported in accordance with Office of Management and Budget Circular A-133:

The requirements of OMB Circular A-133 do not apply to the District.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

**Summary Schedule of Prior Year Findings
Year Ended September 30, 2010**

A. Internal Control –

2009-1 Segregation of Duties

CONDITION: Accounting and financial functions are not adequately segregated.

RECOMMENDATION: Due to size of the operation and the cost-benefit of additional personnel, it may be feasible to achieve complete segregation of duties.

CURRENT STATUS: See schedule of audit results and findings, item 2010-1.

2009-2 Application of GAAP (generally accepted accounting procedures)

CONDITION: Management and staff lack the training and the expertise in the selection and application of GAAP in the financial statement preparation process.

RECOMMENDATION: The additional costs required to achieve the desired benefit may not be economically feasible.

CURRENT STATUS: See schedule of audit results and findings, item 2010-2.

B. Compliance –

2009-3 Budget Variance

CONDITION: Budget variance in excess of 5% was incurred in the General Fund.

RECOMMENDATION: We recommended that the District periodically compare actual activity to budgeted amounts and adopt budgetary amendments as necessary to cause compliance with state statute.

CURRENT STATUS: See schedule of audit results and findings, item 2010-3.

**CONSOLIDATED GRAVITY DRAINAGE DISTRICT NO. 2
OF THE PARISH OF ST. MARY**

**Corrective Action Plan for Current Year Findings
Year Ended September 30, 2010**

2010-1 - Segregation of Duties

CONDITION: Accounting and financial functions are not adequately segregated

MANAGEMENT'S RESPONSE: Not considered necessary

2010-2 - Application of GAAP (generally accepted accounting principles)

CONDITION: Management and staff lack the training and expertise in the selection and application of GAAP in the financial statement preparation process.

MANAGEMENT'S RESPONSE: The District has evaluated the cost / benefit of establishing internal controls over the preparation of financial statement in accordance with GAAP and determined that it is the best interest of the District to outsource this task to its independent auditors and will review, approve, and accept responsibility for the content and presentation of the statements and related notes prior to issuance.

2010-3 - Budget Variance

CONDITION: Budget variance in excess of 5% was incurred in the General Fund.

MANAGEMENT'S RESPONSE: The District will more closely monitor budget to actual comparisons and adopt the necessary amendments to insure compliance with state statute.